

on average will have a meat quality (which includes firmness, water holding capacity, marbling and color determined by a Minolta reading 49.4 or less) that equals or exceeds the meat quality of all other hogs delivered to IBP for slaughter.

(b) Producer agrees to use for Market Hog production a nutritional program that will produce carcasses that equal or exceed the average carcass characteristics, as defined by the carcass evaluation program at the time of delivery, of all carcasses delivered to IBP by all producers IBP buys from.

(c) Producer will permit IBP a reasonable number of scheduled visits to Producer's facilities during normal operating hours to observe and monitor production and quality. Prior notice shall be given to Producer, and such visits will not unreasonably interfere with the operation of such facilities. Producer agrees to provide IBP on request information relating to its production management practices.

Section 4. Price

(a) The price paid by IBP for each lot of Market Hogs delivered by Producer and accepted by IBP under this agreement shall be the price per hundred weight ("cwt") in accordance with this section.

(b) For the Term, the price will be calculated on the Carcass Merit Program under IBP's VMR Agreement in effect at the time of delivery. As of the date of this Agreement, the price for each lot is determined by using the 3-day simple rolling average of the USDA Western Cornbelt Lean Value opening report (released at approximately 11:00 a.m. C.D.T.), average of the low and high carcass cwt price of the 1.00" - 1.19" ranges measured at the midline last rib backfat of the 170 - 191 lb. carcass range for the three days prior to slaughter ("Base Meat Price") and adding or subtracting from the Base Meat Price, IBP's grade premiums and discounts, weight discounts, and other adjustments in effect at the time of slaughter to determine the market price ("Market Price"). IBP's VMR may be changed by IBP on a quarterly basis. Carcass weight prices (for the Base Meat Price and other prices using carcass price) will be converted to live prices by IBP.

(c) When the Market Price (converted from a carcass to a live price) is less than the Floor Price, as defined in Schedule 4(c), the Floor Price shall be paid to Producer. When the Market Price is less than the Floor Price, the difference between the Market Price and the Floor Price, multiplied by the total live weight (expressed in cwt) of that lot, the "Deficiency Amount", shall be drawn from the Reserve Account (defined below) if the Reserve Account has a positive balance. When the Reserve Account balance has been reduced to zero, then the Deficiency Amount shall be accrued in the Deficiency Account (defined below) pursuant to Section 5.

Section 5. Pricing Adjustments